

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2008-302-E – ORDER NO. 2008 - 742
OCTOBER 30, 2008

IN RE: Application of South Carolina Electric & Gas Company for Mid-Period Adjustment in Two Phases of Base Rates Charged by South Carolina Electric & Gas Company for the Recovery of Fuel Costs Associated with Its Service to Retail Electric Customers)	ORDER ON MID-PERIOD ADJUSTMENT AND APPROVING AND ADOPTING SETTLEMENT AGREEMENT
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This matter comes before the Public Service Commission of South Carolina (“Commission”) on the application of South Carolina Electric & Gas Company (“SCE&G” or the “Company”), pursuant to S.C. Code Ann. § 58-27-865(D) (Supp. 2007) and 26 S.C. Code Ann. Regs. 103-823 (Supp. 2007) for an order permitting a mid-period adjustment in the base rates charged by SCE&G for the recovery of fuel costs associated with its service to retail electric customers.

A Notice of Filing and Hearing regarding SCE&G’s application was prepared and, pursuant to the instructions of the Commission’s Docketing Department, was published in newspapers of general circulation in the affected areas. In addition, a copy of the Notice of Filing and Hearing was mailed by United States first class mail service directly to customers receiving service from SCE&G.

The Notice of Filing and Hearing established September 19, 2008, as the date by which interested parties or entities could timely file petitions to intervene or present their

views in writing with the Commission. The South Carolina Energy Users Committee (“SCEUC”), CMC Steel South Carolina (“CMC Steel”), and Pamela Greenlaw (“Ms. Greenlaw”) each filed a Petition to Intervene, which the Commission granted. No other petitions to intervene were filed with the Commission.

The Commission conducted a formal hearing in this matter on October 20, 2008, beginning at 10:30 a.m. in the hearing room of the Commission with the Honorable Elizabeth B. Fleming, Chairman, presiding. K. Chad Burgess, Esquire, Belton T. Zeigler, Esquire, and Mitchell Willoughby, Esquire, represented SCE&G. Shannon Bowyer Hudson, Esquire, appeared on behalf of the South Carolina Office of Regulatory Staff (“ORS”). Scott Elliott, Esquire, represented the SCEUC and Ms. Greenlaw appeared *pro se*. CMC Steel did not appear at the hearing. In this Order, SCE&G, ORS, SCEUC, CMC Steel and Ms. Greenlaw are collectively referred to as the “Parties.”

At the outset of the hearing, counsel for ORS, on behalf of the Parties, presented the Settlement Agreement that was filed with the Commission on October 13, 2008. The Settlement Agreement is attached to this Order as Order Exhibit 1 and by this reference is incorporated in and made part of this Order. In the Settlement Agreement, which was admitted into the evidence of record as Hearing Exhibit 1, the Parties represented to the Commission that they had discussed the issues presented in this case and determined that each Party’s interests and the public interest would be best served by settling all issues pending in this case in accordance with the terms and conditions contained in the Settlement Agreement.

By statute, the Commission is vested with power and jurisdiction to supervise and regulate the rates and service of every public utility in this State, and to fix just and reasonable standards, classifications, regulations, practices, and measurements of service to be furnished, imposed, or observed, and followed by every public utility in this State. S.C. Code Ann. Section 58-3-140 (Supp. 2007). See also S.C. Code Ann. Section 58-27-140 (Supp. 2007). Furthermore, the Settlement Policies and Procedures of the Commission (Revised 6/13/2006) are pertinent to the matter before the Commission and consistent with its statutory duties. Section II of that document (“Consideration of Settlements”) states:

When a settlement is presented to the Commission, the Commission will prescribe procedures appropriate to the nature of the settlement for the Commission’s consideration of the settlement. For example, the Commission may summarily accept settlement of an essentially private dispute that has no significant implications for regulatory law or policy or for other utilities or customers upon the written request of the affected parties. On the other hand, when the settlement presents issues of significant implication for other utilities, customers, or the public interest, the Commission will convene an evidentiary hearing to consider the reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. Approval of such settlements shall be based upon substantial evidence in the record.

This case presents issues of significant implication for the utility and the public interest. As such, this Commission convened “an evidentiary hearing to consider the

reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy.”

At the hearing, SCE&G presented the direct testimony of Gerhard Haimberger, General Manager, Fuel Procurement and Asset Management for SCANA Services, Inc.; Rose Jackson, General Manager-Gas Supply and Capacity Management; Dr. Joseph M. Lynch, Manager of Resource Planning for SCANA Services, Inc.; and Allen W. Rooks, Supervisor of Electric Pricing and Rate Administration. ORS presented the direct testimony of M. Anthony James, Senior Specialist in the Electric Department of ORS. The pre-filed testimony and exhibits of each witness were entered into the record without objection. SCEUC, CMC Steel and Ms. Greenlaw did not present any witnesses at the hearing.

SCE&G witness Haimberger testified that fundamental changes had occurred in the domestic and global coal markets since the Company’s last annual fuel adjustment hearing in Docket No. 2008-2-E. Mr. Haimberger explained that coal prices had become extremely volatile with Free on Board (“f.o.b.”) mine prices rising from about \$40 per ton to around \$80 per ton before the inclusion of transportation costs. These price increases and market volatility were driven by and continues to be driven by new global demand, mining and transportation problems in foreign coal producing countries, coal mining constraints in the U.S. and an unprecedented increase in U.S. coal exports. Mr. Haimberger also testified that global changes in coal markets, coupled with a weakening U.S. dollar were having a profound effect on U.S. markets. As a result of these

conditions, the price for low sulfur, high BTU coal for prompt delivery spiked above \$150 per ton in July 2008. Mr. Haimberger concluded his testimony by stating that the industry's outlook for forward coal prices on July 1, 2008, ranged from \$161.00 per ton f.o.b. mine for prompt delivery to \$140.00 in 2011.

Company witness Jackson testified that natural gas prices during the current period were more volatile than normal as the declining value of the U.S. dollar contributed to escalating crude oil prices which, in turn, increased the comparative value of natural gas. Ms. Jackson testified that a cold January 2008 created pressure on supply and resulted in the market moving prices from \$7.50 per dekatherm to a high of \$10.29 per dekatherm in mid-March. Further price increases occurred as a result of below average underground storage levels and U.S. natural gas supply expectations which were not being met due to a decline in Canadian imports coupled with liquefied natural gas cargoes being routed to Europe and Asia. In addition, projections of an above normal hurricane season and warmer than normal summer temperatures also heightened the concern of supply availability in the market and unseasonably high temperatures experienced in the Southeast increased demand for natural gas to serve electric generation. Ms. Jackson testified that these conditions resulted in natural gas prices climbing to an all time summer high of \$13.69 per dekatherm on July 2, 2008, with oil prices also reaching an all time high of \$147.27 per barrel on July 11, 2008. However, in the third quarter of 2008, the U.S. dollar began to strengthen and natural gas prices declined to the \$7.00 to \$8.00 range. Ms. Jackson concluded her testimony by stating that SCE&G anticipates continued volatility in the natural gas market.

SCE&G witness Lynch testified to forecasting methodologies. Dr. Lynch explained that each summer SCE&G forecasts the growth in the number of customers and their energy consumption by categories of rate, class and SIC code using econometric models, statistical time series models and experience. Dr. Lynch testified that SCE&G's forecasting methodology involves analyzing voluminous amounts of detailed data and is a fairly standard approach used in the industry. Dr. Lynch also testified that SCE&G's mean absolute percent forecast error on weather normalized sales averaged about 1.4% over the last ten (10) years. In addition, Dr. Lynch testified that SCE&G uses a computer program called PROSYM to project the dispatch of SCE&G's generating units to serve its customers. PROSYM is a widely used tool in the utility industry and assists the Company with simulating the operation of SCE&G's power plants to generate the required energy and project the resulting fuel requirements for the system. The inputs to PROSYM include: the projected customer loads, projected fuel prices, the operating parameters of each generating unit and the projected market price for power. Dr. Lynch concluded his testimony by stating that the dramatic rise in coal and natural gas prices was the basis for SCE&G's decision to seek a mid-period adjustment to its fuel cost factor.

SCE&G witness Rooks testified that in Order No. 2008-323, the Commission approved a Base Fuel Component for all retail customer classes and an Environmental Fuel Component for the Residential, Small General Service, Medium General Service and Large General Service rate classes and that as of August 31, 2008, SCE&G's Electric Base Fuel Component balance is under-recovered by \$125,791,213. *See* Hearing Exhibit

3. Mr. Rooks explained that if the currently authorized base fuel component of 2.641 cents per kWh were to remain in place through April 2009, the Company projects that the under-recovery balance for base fuel costs would rise to approximately \$189.7 million. *Id.* Mr. Rooks testified that in order to eliminate the under-recovery balance by the end of April 2009, the base fuel component would need to be set at approximately 4.425 cents per kWh effective in November 2008. *Id.* Rather than implement a single adjustment designed to fully collect the under-recovery balance, SCE&G recommended a two-phase adjustment to its base fuel component which was designed to lower, but not eliminate, the under-recovery balance. Mr. Rooks testified that the Company was proposing the base fuel component of its retail electric rates be increased from 2.641 cents per kWh to 3.291 cents per kWh effective for bills rendered on and after the first billing cycle of November 2008, and from 3.291 cents per kWh to 3.941 cents per kWh effective for bills rendered on and after the first billing cycle of January 2009. Based upon the Company's projections, Mr. Rooks stated that the proposed changes would lower the estimated under-recovery balance for base fuel costs to approximately \$73.7 million by the end of April 2009. *Id.*

ORS witness James testified in support of the Settlement Agreement and discussed ORS's recommendations for adjusting the base fuel component. Mr. James stated that ORS keeps abreast of the coal and natural gas industries including transportation through industry publications on a daily basis. Mr. James also testified that since the filing of SCE&G's application, ORS was aware of recent moderation in fuel prices that occurred in September 2008. As a result, ORS requested that SCE&G

generate an updated forecast to reflect the most current costs of natural gas and coal. Mr. James testified that SCE&G complied with ORS's request and that the updated forecast generated measurable reductions in projected fuel costs through the forecast period of September 2008 to April 2009. ORS then evaluated the impact of a single increase to 3.291 cents per kWh using the updated data. Mr. James testified that the evaluation resulted in a cumulative under-recovery balance of \$85,062,527 through April 2009. *See* Hearing Exhibit 2. ORS presented its findings and recommendations to the Parties who agreed to accept ORS's recommendation of a single increase to the Company's base fuel component of its retail electric rates from 2.641 cents per kWh to 3.291 cents per kWh effective for bills rendered on and after the first billing cycle of November 2008.

The testimony supported the terms of the Settlement Agreement regarding the appropriate fuel factors for SCE&G to charge for the period beginning with the first billing cycle in November 2008 and continuing through the last billing cycle of April 2009, which are listed in the table below:

Class	Base Fuel Cost Component (cents/KWH)	Environmental Fuel Cost Component (cents/KWH) set forth in Docket No. 2008-2-E	Total Fuel Costs Factor (cents/KWH)
Residential	3.291	0.101	3.392
Small General Service	3.291	0.087	3.378
Medium General Service	3.291	0.075	3.366
Large General Service	3.291	0.044	3.335
Lighting	3.291	-	3.291

The Environmental Fuel Cost components in the table above shall remain the same as set forth in Docket No. 2008-2-E. Moreover, the Commission finds that the Base Fuel Component of 3.291 cents per kWh will not totally eliminate SCE&G's under-recovery balance but will reduce the current under-recovery balance to approximately \$85,062,527 through April 2009. Any outstanding under-recovery balance through April 2009 will be addressed in the Company's next regularly scheduled fuel hearing in Docket No. 2009-2-E in accordance with S.C. Code Ann. § 58-27-865 (Supp. 2007).

After hearing the evidence and testimony of the witnesses and reviewing the Settlement Agreement, the Commission finds and concludes that the Base Fuel Cost Component should be adjusted to reflect the dramatic and unexpected changes in the market prices of coal and natural gas. The Commission also finds that the Settlement Agreement balances the interests of SCE&G with that of the public and allows for the recovery by SCE&G of incurred fuel costs as precisely and promptly as possible and in a manner to assure public confidence and minimize abrupt changes in charges to customers. As such, the Settlement Agreement is in the public interest as a reasonable resolution of the issues in this case, and it stabilizes the fuel factors through the last billing cycle of April 2009. We also find that resolution of the issues among the Parties as set forth in the Settlement Agreement does not appear to inhibit economic development.

Furthermore, based upon the evidence presented, we find that due to the expedited schedule associated with this docket ORS was unable to perform a comprehensive evaluation or an audit of the Company's books and records in this proceeding. Therefore,

SCE&G's recovery of any fuel costs under this Order, as well as those amounts recovered for those months not audited by ORS, are subject to a full and complete prudence review by ORS and shall be open issues for challenge by any party in the next regularly scheduled fuel hearing to be held in Docket No. 2009-2-E under the procedure and criteria established in S.C. Code Ann. § 58-27-865 (Supp. 2007).

IT IS THEREFORE ORDERED THAT:

1. The Settlement Agreement is incorporated herein by reference and is found to be a reasonable resolution to the issues of this case and further found to be in the public interest.

2. SCE&G shall set its Total Fuel Cost Factors consistent with the amounts set forth in the table below effective for bills rendered on and after the first billing cycle in November 2008 and continuing through the last billing cycle of April 2009.

Class	Base Fuel Cost Component (cents/KWH)	Environmental Fuel Cost Component (cents/KWH) set forth in Docket No. 2008-2-E	Total Fuel Costs Factor (cents/KWH)
Residential	3.291	0.101	3.392
Small General Service	3.291	0.087	3.378
Medium General Service	3.291	0.075	3.366
Large General Service	3.291	0.044	3.335
Lighting	3.291	-	3.291

3. The Environmental Fuel Cost components shall remain the same as set forth in Docket No. 2008-2-E.

4. Any outstanding under-recovery balance through April 2009 will be addressed in the Company's next regularly scheduled fuel hearing in Docket No. 2009-2-E in accordance with S.C. Code Ann. § 58-27-865 (Supp. 2007).

5. SCE&G's recovery of any fuel costs under this Order, as well as those amounts recovered for those months not audited by ORS, are subject to a full and complete prudence review by ORS and shall be open issues for challenge by any party in the next regularly scheduled fuel hearing to be held in Docket No. 2009-2-E under the procedure and criteria established in S.C. Code Ann. § 58-27-865 (Supp. 2007).

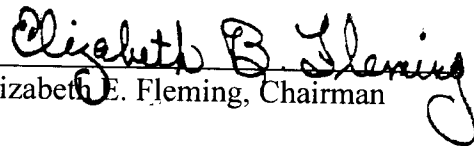
6. The Parties shall abide by all terms of the Settlement Agreement.

7. SCE&G shall file with the Commission a copy of its tariff sheet entitled "Adjustment For Fuel and Variable Environmental Costs" and all other retail tariff sheets within ten (10) days of receipt of this Order and serve a copy on ORS.

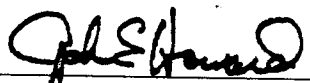
8. SCE&G shall comply with the notice requirements set forth in S.C. Code Ann. § 58-27-865(D) (Supp. 2007).

9. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Elizabeth E. Fleming, Chairman

ATTEST:


John E. Howard, Vice Chairman

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2008-302-E

October 13, 2008

IN RE:

South Carolina Electric & Gas Company)	
Application for Mid-Period Adjustment)	
In Two Phases of Base Rates Charged by)	SETTLEMENT AGREEMENT
SCE&G for Recovery of Fuel Costs)	
Associated with its Service to)	
Retail Electric Customers)	
_____)	

This Settlement Agreement (“Agreement”) is made by and among the South Carolina Office of Regulatory Staff (“ORS”), Ms. Pamela Greenlaw (“Ms. Greenlaw”), CMC Steel South Carolina f/k/a SMI Steel South Carolina (“CMC”), South Carolina Energy Users Committee (“SCEUC”), and South Carolina Electric & Gas Company (“SCE&G”) (collectively referred to as the “Parties” or sometimes individually as a “Party”).

WHEREAS, the above-captioned proceeding has been established by the Public Service Commission of South Carolina (“Commission”) pursuant to the procedure established in S.C. Code Ann. §58-27-865 (Supp. 2007), and the Parties to this Settlement Agreement are parties of record in the above-captioned docket. There are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have varying legal positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions to determine if a settlement would be in their best interest;

WHEREAS, following these discussions the Parties have each determined that their interest and the public interest would be best served by settling matters in the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the direct pre-filed testimony and exhibits of the following witnesses without objection, change, amendment or cross-examination.¹

A. SCE&G witnesses:

- (1) Gerhard Haimberger
- (2) Rose Jackson
- (3) Joseph M. Lynch
- (4) Allen W. Rooks

B. ORS witness:

- (1) M. Anthony James

Mr. James's direct pre-filed testimony supports this Agreement, and accordingly, Mr. James will testify in support of the Agreement during the hearing.

2. As a compromise among all parties, SCE&G agrees to limit its "Application for Mid-Period Adjustment" to one phase instead of the requested two-phases. As part of the one-phase adjustment agreed to by the parties, SCE&G shall limit its increase of the Base Fuel Component to 3.291 cents per KWH effective for bills rendered on and after the first billing cycle of November 2008. SCE&G agrees to seek no further Base Fuel Component adjustment until its regularly scheduled fuel hearing to be held under Docket No. 2009-2-E.

3. The Environmental Fuel Cost components shall remain the same as set forth in Docket No. 2008-2-E, and SCE&G agrees to seek no adjustment until its regularly scheduled

¹ CMC's pre-filed direct testimony and exhibits of Dr. Dennis W. Goins is not being stipulated into the record.

fuel hearing to be held under Docket No. 2009-2-E. Accordingly, pursuant to this Agreement, the appropriate fuel factors for SCE&G to charge for the period beginning with the first billing cycle in November 2008 extending through the last billing cycle of April 2009 are listed below.

Class	Base Fuel Cost Component (cents/KWH)	Environmental Fuel Cost Component (cents/KWH) set forth in Docket No. 2008-2-E	Total Fuel Costs Factor (cents/KWH)
Residential	3.291	0.101	3.392
Small General Service	3.291	0.087	3.378
Medium General Service	3.291	0.075	3.366
Large General Service	3.291	0.044	3.335
Lighting	3.291	-	3.291

4. The Parties agree the fuel factors set forth above are consistent with S.C. Code Ann. § 58-27-865(Supp. 2007). The Parties further agree that any amounts recovered per this Agreement, as well as those amounts recovered for those months not audited by ORS, are subject to a full and complete prudence review by ORS and shall be open issues for challenge by any party in the next regularly scheduled fuel hearing to be held in Docket No. 2009-2-E under the procedure and criteria established in S.C. Code Ann. § 58-27-865 (Supp. 2007). As such, SCE&G agrees to allow the parties to Docket No. 2008-302-E to begin requesting data for Docket No. 2009-2-E and SCE&G agrees to provide such information to the extent it is available.

5. The Parties agree this Settlement Agreement is reasonable, in the public interest and in accordance with law and regulatory policy.

6. Further, ORS is charged with the duty to represent the public interest of South Carolina pursuant to S.C. Code §58-4-10(B) (Supp. 2007). S.C. Code §58-4-10(B)(1) through (3) reads in part as follows:

“...‘public interest’ means a balancing of the following:

- (1) Concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) Economic development and job attraction and retention in South Carolina; and
- (3) Preservation of the financial integrity of the State’s public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.”

7. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution in the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

8. This written Settlement Agreement contains the complete agreement of the Parties. There are no other terms and conditions to which the Parties have agreed. This Settlement Agreement integrates all discussions among the Parties into the terms of this written document. The Parties agree that this Settlement Agreement (a) will not constrain, inhibit or impair or prejudice their arguments or positions held in future proceedings, (b) will not constitute a precedent or evidence of acceptable practice in future proceedings, and (c) will not limit the relief, rates or recovery that any party may seek or advocate in future proceedings. If the Commission should decline to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.

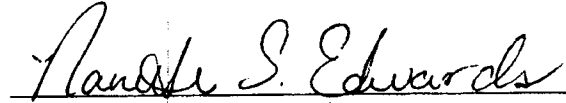
9. This Settlement Agreement shall be interpreted according to South Carolina law. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing his

or her signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

[SIGNATURE PAGES TO FOLLOW]

WE AGREE:

Representing and binding the South Carolina Office of Regulatory Staff

A handwritten signature in cursive script, reading "Nanette S. Edwards", is written over a horizontal line.

Nanette S. Edwards, Esquire

Shannon Bowyer Hudson, Esquire

South Carolina Office of Regulatory Staff

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WE AGREE:

Representing CMC Steel South Carolina f/k/a SMI Steel- South Carolina

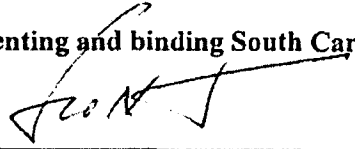


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WE AGREE:

Representing and binding South Carolina Energy Users Committee



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I AGREE:

A handwritten signature in cursive script, reading "Pamela Greenlaw", is written over a horizontal line.

Pamela Greenlaw

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WE AGREE:

Representing and binding South Carolina Electric & Gas Company



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